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RUEHWR/AMEMBASSY WARSAW PRIORITY 0058  
RUEHCD/AMCONSUL CIUDAD JUAREZ PRIORITY 0032  
RUEHIT/AMCONSUL ISTANBUL PRIORITY 0039  
RULSDMK/DEPT OF TRANSPORTATION WASHDC PRIORITY  
RUEKJCS/SECDEF WASHINGTON DC PRIORITY  
RUEAIIA/CIA WASHINGTON DC PRIORITY  
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY  
RHMCSUU/DEPT OF ENERGY WASHINGTON DC PRIORITY  
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY  
RHEFDIA/DIA WASHINGTON DC PRIORITY

UNCLAS SECTION 01 OF 02 LAGOS 000005

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SUBJECT: NIGERIANS SUFFER HUGE LOSSES FROM POWER OUTAGES

REF: 05 LAGOS 806

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11. (U) Summary: Despite the GON's moves to privatize and restructure the power sector, Nigerians continue to suffer from inadequate power. Industrial and domestic consumers decry the state of the power sector in the last five months. Most Nigerians involved in small-scale enterprises spend naira 30,000 (USD 231) per month on diesel generators to sustain their businesses, yet they also pay the PHCN monthly for services not rendered. The GON attributes the dismal state of power supply to unrest in the Niger Delta and damage by militant groups to gas pipelines that feed power generating plants. This excuse has not been generally accepted by consumers. The average citizen and many experts argue that problems in the sector are due to poor infrastructure development and GON mismanagement. Septel will outline GON's plans to address these problems. End summary.

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Power Reform and Investment No Panacea  
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12. (U) As part of a program to overhaul the power sector, the GON transformed the state-owned National Electric Power Authority (NEPA) - into the Power Holding Company of Nigeria (PHCN). PHCN was charged with privatizing 11 power distribution companies (discos), 6 generation companies (gencos) and 1 transmission company (transco) by the end of 12006. The privatization program is far behind schedule as this deadline passes. Nor has a major program of government investment in power projects yet had an impact.

13. (U) Power generation has failed to increase despite billions of dollars invested by the GON on building new power plants and refurbishing old ones. In its drive to deliver on electoral promises of providing 10,000 MW of electricity by 2007, the present administration invested naira 1.3 trillion (USD 9.6bn) in the sector in the past seven years. Since December 2005, the PHCN's output has plummeted by almost 50%, from an already insufficient 4,000 megawatts (MW) to a meager 2,000 MW. Effective demand is estimated at 10,000 MW. The production cuts resulted in massive load shedding to curtail

a wave of aggressive protests from millions of urban customers nationwide. The GON attributed the decline to the disruption of gas production and pipeline facilities in the Niger Delta since December 2005. This, according to the GON, had curtailed the volume of gas input to PHCN's thermal generating plants. The Egbin, Sapele, Delta IV and Afam thermal plants were affected.

¶4. (U) The Manufacturers' Association of Nigeria (MAN), in its recent survey on the impact of power outages on industry, found industrial estates around the country enjoyed an average of 7.5 hours of electricity per day in 2005. The report, which in other words, put total power outages to industries at 16.5 hours per day, reported that the Ikeja industrial estate in Lagos had the highest power supply at 12.5 hours per day. Edo and Delta States suffered the greatest energy scarcity, receiving only 4 hours of power supply per day. The Bureau of Public Enterprises (BPE) estimated that Nigeria loses about naira 135bn (USD 1.03bn) annually to inefficiency in the power sector.

¶5. (U) MAN member companies run on diesel generators to meet targets. Resort to generators increases production costs significantly. One manufacturer claimed he could double his profits if he could rely on the public power supply. Sensitive manufacturing processes are hard hit by inadequate power supply. Even with the use of back-up generators, there is a gap of several seconds before power is restored, harming sensitive equipment, according to business owners and aviation industry officials.

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Power Outage Takes a Toll on Average Nigerians  
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¶6. (U) Power outages have taken a financial toll on business  
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and private life. Many small- and medium-scale business owners claim they spend naira 30,000 (USD 231) per month to power their operations. For many, the price of electricity accounts for most of their overhead costs, undermining the competitiveness of their products and services. While a small-scale hairdresser in Ketu, Lagos spends naira 15,000 (USD 115) per month on diesel-powered generators, her customers have responded negatively to her attempts to raise charges to cover these costs. The owner of a printing press claimed to have been running his press exclusively on power from a diesel generator for several months. According to him, extra funds that could have been used to expand the business or maintain machinery were being used on fuel.

¶7. (U) Domestic consumers suffer similar hardships. Many have resorted to using small gasoline generators, which power appliances such as fans and televisions. Most middle and upper-middle class households have two generators. Many residents pine for the arrival of the cooler temperatures of the rainy season so they can reduce generator use and relieve pressure on household finances.

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Nigeria's Power Company Loses Capacity  
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¶8. (U) A visit to PHCN offices at Magodo and Ilupeju in Lagos revealed the company's offices also run on diesel-fueled generators. At the Magodo office, customers paid electricity bills and lodged complaints about inadequate power supply above the muffled sound of a 250 KVA F.G. Wilson diesel generator. In Ilupeju, a 35 KVA Perkins diesel generator was in use. At both locations, customers challenged PHCN personnel on the accuracy of their bills and questioned whether PHCN was overcharging them.

¶9. (SBU) Poor infrastructure and gross mismanagement of revenue allocation by the GON and PHCN officials are the

true, underlying reasons for the abysmal state of power supply in the country. However, according to many industry sources, if NEPA had properly done its homework the dislocation caused by the militants would have been a nuisance but not catastrophic. Over the years, however, NEPA and PHCN officials inflated contract costs to extract profit. Some contractors, in collaboration with NEPA/PHCN officials, were said to have imported used turbines and transformers at a cost that could have purchased brand new machinery.

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Comment  
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¶10. (SBU) Since 1999, President Obasanjo's administration has spent more funds on the PHCN than on any other government enterprise, yet improvements in power supply remains elusive. Many have attributed this to sabotage and conspiracy between government officials and importers of generators. Several target dates for the transfer of power generation and distribution to the private sector have come and gone without progress being made. This casts doubt on the GON's political will to reform the sector, which is believed to be a major source of patronage for the federal government.

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